BUDGET FORMULATION
in the
ARMY, NAVY, and AIR FORCE-
A Comparison

Research Report of the 1959 Class
Navy Graduate Comptrollership Program

The George Washington University
Washington, D. C.

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FOREWORD

This third group paper, developed by the 1959 Navy Graduate Comptrollership Class at The George Washington University, is completed at a time when the projected reorganization of the Department of Defense may substantially change many budgetary formulation processes of the three military services. However, it has seemed important to bring together under one cover some of the past similarities as well as the variations in budget formulation processes, since "what is past is prologue" and it is certain that many steps in each service will be continued, no matter the form of reorganization.

The two previous group studies, published by the University as a result of the existence of the first academic program initiated by the Department of Defense to implement Public Law 216, passed by Congress in 1949, were

1957 FINANCIAL MANAGEMENT IN THE DEPARTMENT OF THE NAVY
1958 FINANCIAL MANAGEMENT IN THE SHORE ESTABLISHMENT

It is felt that this publication again adds importantly to the literature of Defense financial management, and will be welcomed by practitioners as well as by students interested in the development of a significant part of the President's Budget.

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BUDGET FORMULATION IN THE ARMY, NAVY, AND AIR FORCE - A COMPARISON

INTRODUCTION

The National Security Act of 1947[1] created the Department of Defense and brought the word "unification" into common usage in connection with the Armed Forces. Although uniform budgeting was not a prime consideration in the passage of the Act, it quickly became evident that fiscal management was an area of major concern if some of the objectives of unification were to be achieved. After a two-year trial period, the statutory framework of the Department of Defense was modified substantially by the National Security Act Amendments of 1949.[2] At this time strong and specific provisions relating to fiscal management were added.

Title IV of the Amendments is entitled, Promotion of Economy and Efficiency Through Establishment of Uniform Budgetary and Fiscal Procedures and Organizations. It establishes a Comptroller of the Department of Defense and a Comptroller and a Deputy Comptroller in each of the three military departments. Other important provisions of Title IV are that: (1) budget estimates of the three departments shall be on a cost of performance basis in a readily comparable form and uniform pattern; (2) the Secretary of Defense is authorized to

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[1] 80th Congress, 1st Session, Public Law 253, July 26, 1947.

[2] 81st Congress, 1st Session, Public Law 216, August 10, 1949.

require establishment of working capital funds; (3) management funds are established for each department; (4) the Secretary of Defense is required to have property records maintained on both a quantitative and monetary basis insofar as practicable. These provisions plainly show that Congress intends that fiscal management of the Military Services follow a unified pattern, with economy and efficiency as primary objectives.

At the time the 1949 Amendments were passed the Army and Air Force already had comptrollers. In compliance with the law, comptrollers' offices were established in 1950 in the Department of Defense and the Department of the Navy. Since the other provisions of Title IV have also been met, it would now seem that uniformity in fiscal management has been achieved.

In reality many difference still exist in organization, policies, and procedures in the three departments. The Department of Defense Reorganization Act[3] was passed in August 1958 in an effort to provide closer control and to achieve still greater uniformity within the Department of Defense. The changes which will result from this Act are still in the formulative stages and their effect upon fiscal management cannot be predicted accurately at this time.

Because major differences in fiscal management in the three departments do exist and because the 1958 Reorganization Act recognizes that still greater uniformity is desirable, the 1958 Navy Comptrollership Class at George Washington University became interested in comparing the current procedures and determining exactly where and how they differ. We

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[3] 85th Congress, 2nd Session, Public Law 899, August 6, 1958.

found that an abundance of written material exists describing the individual procedures, but that nothing really comprehensive had been written comparing the procedures of the Army, Navy, and Air Force. Such a comparison seemed to provide an appropriate subject for our group thesis.

We recognized, however, that the entire field of fiscal management was too broad for adequate coverage in such a thesis; hence, we decided to limit our study to the formulation of the budget in each of the Departments. Because the changes brought about by the Reorganization Act are still being effected, we have further limited our discussion to a comparison of budget formulation procedures applicable to fiscal years up to and including 1960.

We have attempted to show not only what is set forth in various written instructions but also some of the practical considerations. In an effort to give a realistic picture of how each of the Armed Services formulates its budget, we have supplemented our reading by interviews with people who are in the business of budgeting. We have talked with both military and civilian personnel at the Department of Defense and service headquarters level in Washington, and at the major command and installation levels in the area. We hope that the result is a synthesis of the theoretical and the practical which approximates the actual.

The first three chapters of our paper trace the formulation of the Department of Defense budget from the issuance of policy guidance by the President, through the various intervening echelons, to the installation and program director levels. The next chapter follows the budget estimates in the reverse order as they are reviewed at each echelon until they are submitted to the Bureau of the Budget. Our final chapter attempts to summarize and evaluate the differences in

budget formulation procedures.

We hope our presentation may be of help to individual "budgeteers" in understanding how their counterparts in the other services operate and to those in higher echelons in smoothing the path to greater uniformity of fiscal management in the Department of Defense.

CHAPTER I

GUIDANCE IN THE FORMULATION OF THE DEPARTMENT OF DEFENSE BUDGET

> The budget, as recommended, reflects the program of the Chief Executive. When enacted it becomes the work program of the government, reflecting all government responsibilities and activities in the political, economic, and social aspects. Budget formulation, therefore, must be geared closely and directly to the formulation of the Chief Executive's program as a whole. Budgeting and programming are the two sides of the same coin; both must be under the direct supervision of the Chief Executive.[4]

This quotation from a former Director of the Bureau of the Budget states succinctly why the starting point for any Federal budget is and must be a statement of policy from the President.

The President and the Bureau of the Budget

The budget which is submitted to Congress early each January is the Executive Budget formulated to reflect the views of the President. The President weighs many factors in laying down guidelines to agencies. He appraises the overall economic status of the country and the probable impact of the budget on the economy. He looks at domestic and foreign needs, the international situation, and the demands of national security. He compares predicted revenues with planned expenditures.

> The Federal budget is the one place to see the U. S. Government whole. It also is the medium through which the President lays down in dollars and cents his philosophy on what the role of the national government should be--how it

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[4] Harold D. Smith, The Management of Your Government (New York: McGraw-Hill, 1945), p. 90.

> should defend itself, what part it should play in world and home affairs, how it should meet the cost. The budget sets the tone for the debate on whether that philosophy is to prevail. The economic report gauges the climate of the national economy in which the Federal budget is a major element.[5]

Policy planning for a particular budget begins approximately fifteen months prior to the beginning of the fiscal year in which the budget will become effective or nine months before it is presented to Congress. The Bureau of the Budget, the right arm of the President in budgetary matters, assists the President in establishing the frame of reference for budget formulation. With the advice of the Treasury Department, the Council of Economic Advisers, the National Security Council, and other agencies, the Bureau of the Budget reaches tentative conclusions as to the probable effect on future budgets of proposed financial commitments, of assumed domestic and international conditions, and of trends in revenue, costs, and workloads. The Budget Director discusses this tentative budgetary outlook with the President and the Cabinet early in the spring.

Following this presentation, during which broad lines of policy evolve, the Bureau of the Budget calls for preliminary estimates from the larger agencies. The estimates are not detailed but cover only broad program areas. The Bureau itself makes an overall, informal estimate of the amount required to cover the needs of the smaller agencies. These rough estimates are compared with the estimates of revenue made by the Treasury Department. The Bureau is then in a position to set some budget planning targets for the larger agencies and to identify some of the policy questions which must be answered. Estimates of both revenues and expenditures are admittedly rough, but

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[5] "The News of the Week in Review," The New York Times, January 25, 1959, p. E1.

they do provide a framework around which a rudimentary budget policy can be formed. In May or June the Director of the Budget is ready for further discussions with the Cabinet and the heads of the larger agencies, such as the Secretary of Defense.

Some vital policy decisions then become necessary. Estimated revenues rarely exceed the estimated costs of planned programs. Therefore, a choice must be made between reducing programs to match revenues or increasing revenues to cover the programs. If the programs are retained, they must be financed by increasing the Government's receipts or by borrowing. Even in those unusual years when anticipated revenues and estimated expenditures balance, the suggested programs must be considered in the light of a possible tax cut or the reduction of the national debt. After the second discussion with the Cabinet, therefore, the Bureau carefully considers the size and the interrelationships of the programs and the over-all effect of individual reductions.

In June the budget examiners prepare recommended planning figures for the Director's review based on the data collected. The Director, with the Head of the Office of Budget Review and other assistants, reviews the proposals of the budget examiners and prepares his own recommendations for presentation to the President. The President determines targets or ceilings for the larger agencies and suggests target amounts for those expenditures which are mandatory under existing laws. The Cabinet may review the entire budgetary picture after the President's decisions have been made.

While this is going on, the agencies are also considering their individual budgets. They are compiling detailed estimates on a tentative basis pending definitive guidance from the President and the Bureau of the Budget. In late June or July, the Director of the Budget passes on the President's decisions to the agency heads. He may meet with some

to discuss the effects of the President's decisions on the agency's programs. In all cases a formal letter of notification goes to each agency giving a monetary ceiling and guidelines to be used in formulating the estimates.

The responsibility for constructing a well-balanced budgetary program within the authorized ceilings is left to the agency. The ceiling is regarded as a target rather than a firm commitment. During the Bureau's detailed examination of an agency's estimates, this monetary allowance could be revised downward, or, if a financial request above the ceiling is essential, an increase could be approved. The ceiling letter, or a separate letter to agencies not under a ceiling, formally outlines the President's budget policy and summarizes the economic assumptions on which the policy is based. It may also discuss such matters as character and scope of Federal construction, limitations on new activities, and priority factors in attaining economy or other fiscal objectives. About the first of July the Call for Estimates giving the planned time schedule goes to departments and agencies.

The Secretary of Defense

When the Secretary of Defense receives official guidance from the President, he must make additional important decisions before providing the Secretaries of his three Departments with policy guidance. It would be a phenomenon if a peace-time budgetary ceiling set by the President were high enough to provide for all of the programs which the Secretary of Defense or the Services wish to implement. Therefore, the Secretary must decide which programs are absolutely essential and which can be eliminated or reduced. He must decide in what proportions the funds will be allocated to the three Services and set monetary limitations

and personnel ceilings for each.

> This melon (the 1960 budget for the Department of Defense) is cut, as nearly all defense appropriations have been since the "massive retaliation" doctrine was enunciated, into three unequal parts, with almost exactly the same percentages as in recent years going to the Air Force, the Navy, and the Army. These percentages, which seem to have become almost as sacrosanct and frozen as the one-third-each split that marked the early post-war years, are about 46 per cent for the Air Force; 28 per cent for the Navy (and Marines); 22 to 23 per cent for the Army; and the rest to the Department of Defense.[6]

In making these decisions the Secretary of Defense is guided not only by the policy of the President but also by short, mid, and long-range plans which are being made, reviewed, and revised continuously by the Joint Chiefs of Staff. These plans set the military objectives and the requirements for achieving the objectives. They are formulated on the basis of political, military, and economic forecasts. The Joint Chiefs of Staff are guided by the President and the National Security Council during the budgetary process and throughout the year. Hence, their plans accurately reflect national policy.

Also, the Secretary of Defense is a member of both the Cabinet and the National Security Council. Therefore, he has been "in" on budgetary planning sessions before the formal guidance is received from the Bureau of the Budget, and he knows what the President's thinking is and what guidelines he is likely to receive.

At the same time close liaison is maintained between the Office of the Comptroller of the Department of Defense and the Bureau of the Budget (particularly the budget examiners for the Department of Defense).

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[6] Hanson W. Baldwin, "Defense Issue Crucial in the Budget Battle," The New York Times, January 25, 1959, p. E5.

Thus preliminary and tentative guidelines can be, and frequently are, passed down to the Service Secretaries in advance of formal direction.

The Comptroller of the Department of Defense is an Assistant Secretary and the principal staff assistant to the Secretary of Defense in budgetary matters. Title IV of the National Security Act Amendments of 1949 established the Office and charged the Comptroller with advising and assisting the Secretary of Defense in performing budgetary and fiscal functions. Subject to the authority, direction, and control of the Secretary of Defense, he is to:

> supervise and direct the preparation of the budget estimates of the Department of Defense; and establish, and supervise the execution of principles, policies, and procedures to be followed in connection with organizational and administrative matters relating to the preparation and execution of the budgets, fiscal, cost, operating, and capital property accounting, progress and statistical reporting, internal audit, and policies and procedures relating to the expenditure and collection of funds administered by the Department of Defense; and establish uniform terminologies, classifications, and procedures in all such matters.[7]

The Service Secretaries

The Secretaries of the Army, Navy, and Air Force usually receive guidance from the Secretary of Defense in July. They must repeat substantially the same process in indicating the amounts set by their individual ceilings among the elements of their services. They have also been working on budgetary planning prior to receiving formal guidance, and although planning has been on a tentative and indefinite basis, they have not been working in a vacuum. The plans of the Joint Chiefs of Staff are known by them and informal guidance from the higher echelons has been filtering down. They are able to make educated guesses based on the prevailing political, economic, and international situations. In turn they

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[7] 81st Congress, 1st Session, Public Law 216, August 10, 1949.

are able to provide their subordinates with tentative guidelines.

At this point the first difference in the budget formulation procedures of the Army, Navy, and Air Force appears. Title IV of the National Security Act Amendments of 1949 established Comptrollers and Deputy Comptrollers for each of the three Services. The law provides that:

> The Secretaries of the military departments may in their discretion appoint either civilian or military personnel as comptrollers of the military departments. Departmental comptrollers shall be under the direction and supervision of, and directly responsible to, either the Secretary, the Under Secretary, or an Assistant Secretary of the respective military departments; provided, that nothing herein shall preclude the comptroller from having concurrent responsibility to a Chief of Staff or Chief of Naval Operations, a Vice Chief of Staff or a Vice Chief of Naval Operations or a Deputy Chief of Staff or a Deputy Chief of Naval Operations, if the Secretary of the military department concerned should so prescribe. Where the departmental comptroller is not a civilian, the Secretary of the department concerned shall appoint a civilian as Deputy Comptroller.[8]

The Navy has designated the Under Secretary of the Navy as its Comptroller. The Comptroller of the Navy is, therefore, a civilian and stands in the same relation to the Secretary of the Navy as does the Comptroller of the Department of Defense to the Secretary of Defense. The Deputy Comptroller of the Navy is a flag officer. In accordance with the proviso, the Army and the Air Force elected to have their Comptrollers report to the respective Chiefs of Staff, and to date, the Comptrollers have been officers of the rank of general and the Deputy Comptrollers have been civilians. Chart No. 1 shows the organization for each service. While each of the three Comptrollers is responsible for assisting his Secretary with the development of budgetary policies, the association of the Comptroller of the Navy with his Secretary is perhaps closer because

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[8] 81st Congress, 1st Session, Public Law 216, August 10, 1949.

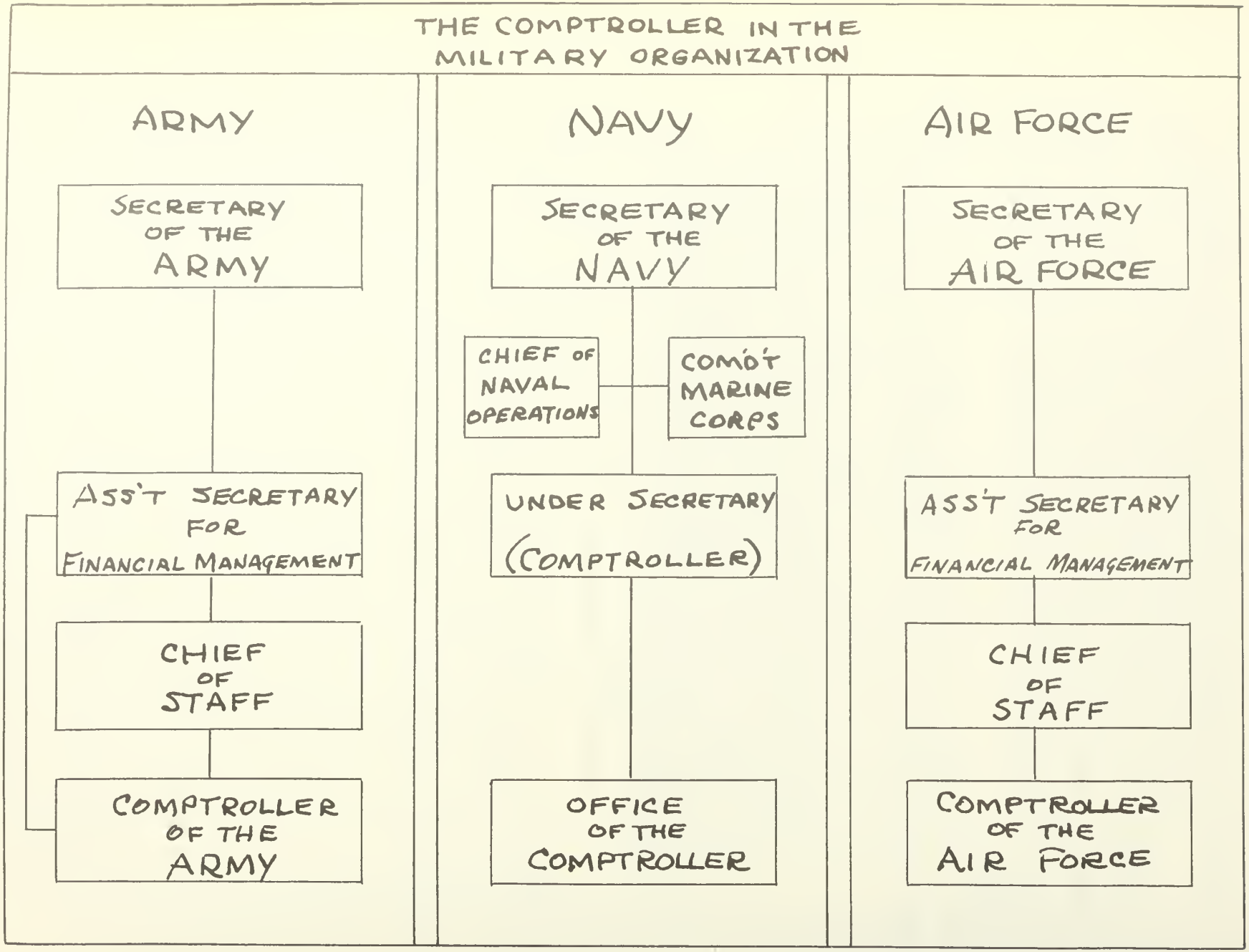

FIGURE 1. THE COMPTROLLER IN THE MILITARY ORGANIZATION.

of differences in the organizational structure. There is no doubt that each Service Secretary relies to a great extent on his Comptroller in making decisions which will guide his subordinates in budget formulation.

When they have received a definite statement of policy and ceilings, the Service Secretaries apply this guidance to the overall programs of their services. They pass on to the Chiefs of Staff of the Army and the Air Force and to the Chief of Naval Operations (and the Commandant of the Marine Corps) firm guidance for budgetary planning. Although tentative estimates have been prepared over a period of several months, the real work of formulating the budget for the ensuing fiscal year begins at this time.

Conclusion

From this discussion it might appear that establishing a policy framework for a budget, although a long process, is straight-forward, methodical, and systematic. Such is not the case.

Time schedules are only target dates. The timing varies from year to year and from department to department and is much more likely to run behind than ahead of the published schedules. "Exact precision in timing the preparation of the budget does not and cannot exist."[9]

Budget formulation is not a one-way street. At the time that policy information is flowing down, program information is flowing up. Budget formulation is not even a simple two-way street. There are many cross-lines of communication between representatives of the Bureau of the Budget and other representatives of the Executive Branch, between Bureau of the Budget examiners and agency budget planners, between

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[9] Jesse Burkhead, Government Budgeting (New York: John Wiley & Sons, Inc., 1956), p. 89.

departments and agencies, and between components within a department or agency. An informal communications system throughout the government also provides for the exchange of bits and pieces of information which eventually find their way into the Executive Budget. So, Budget formulation is neither a one-way street nor a two-way street. It is more like a multi-level cloverleaf of almost infinite complexity leading, if vague and often conflicting directions are correctly interpreted, to a turnpike which is continually under construction and modification.

Many factors can cause the President to change a policy already set or to delay transmitting policy guidance until the eleventh hour. Unforeseen developments such as a volatile international situation, a dramatic scientific achievement, or an economic crisis can necessitate far-reaching changes in budget planning at any time. Political considerations are influential; in an election year policy guidance is likely to be withheld or given sparingly until the election results are known.

And the Federal budget is always controversial. The Executive Budget for fiscal year 1960 is no exception.

> Immediately after the presentation of the President's budget to the Senate on Monday, Senator Johnson rose. He said, "This . . . is a propaganda budget . . . it was prepared to create a political issue for 1960." The same day the Democratic Advisory Council, a group of leading Democrats mainly outside of Congress, issued a sharp attack on the President's budget and programs. Charging the Administration with putting "pocketbook before people," the Council said, "National programs . . . are cut back . . . The effect . . . is not to expand but repress the economy. . . ." President Eisenhower, commenting on these attacks at his news conference on Wednesday, said that some of his critics "say the estimates of revenue are completely out of reason" and "others complain bitterly because we are not spending enough." He added, "It seems like something that might be called budgetary schizophrenia that is affecting the critics of the budget because they are on all sides of it."[10]

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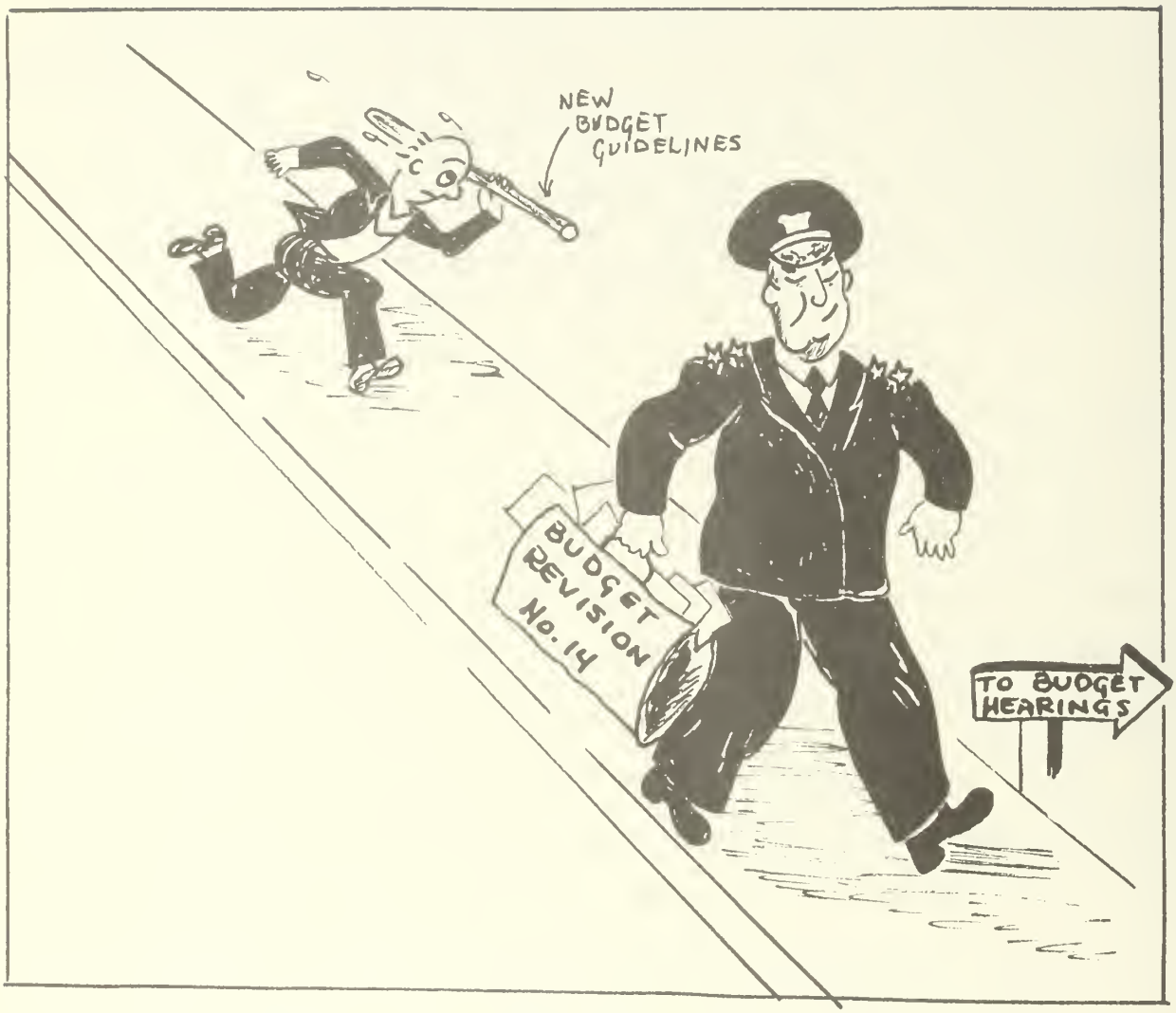
[10]"The News of the Week in Review," The New York Times, January 25, 1959, p. E1.

It is not surprising that guidance often reaches the agencies in installments. But this necessarily means that estimates must be made and re-made many times during the course of the budget cycle. Flexibility and adaptability are prime requisites for successful budget formulation. Every echelon in the Military Departments must be ready to make quick modifications with each new swing of the pendulum.



FAMOUS LAST WORDS:

"THEY JUST CAN'T CHANGE THIS BUDGET ON ME."

FIGURE 2.

CHAPTER II

HEADQUARTERS GUIDANCE

In support of the basic military policy of the United States, the Department of Defense has been assigned complex missions and functions that involve all levels of command within the Departments of the Army, Navy, and Air Force. The ability of the military services to fulfill their missions is directly related to the effectiveness of their budgetary planning, which in turn is dependent on the efficiency of the programming processes and other forms of headquarters guidance. Programming provides a means of developing and expressing the balanced, orderly schedule of actions necessary to get and use the things needed to reach and maintain the desired military posture for current and future periods. Thus the programs show, through a series of inventory positions and operating rates, how the services plan to move from their current position to their approved objectives. In this chapter we will examine the various phases of headquarters guidance as it is developed in the individual services for use in the budget formulation process.

Formulation of Objectives

Army

The Army program system provides for the organized direction and control of the peacetime military activities of the Army. Objectives are established through the program system and are related to supporting resources for a designated period of time and for specific functional areas. Program objectives and supporting resources are integrated so

that each command, agency, or installation receiving funds may establish a planned course of action (program) to accomplish the peacetime military missions for which it is responsible.

The Army system provides for development of a balanced 5-year program in terms of forces, facilities, and material. The 5-year program takes current war plans, existing resources, and anticipated fiscal authorizations into consideration. Major subordinate commands and agencies formulate and execute annual programs in accordance with this plan; it is also used as the basis for reviewing and analyzing performance at all levels. Accordingly, the major functions of the Army program system are:

> a. To formulate and record the major objectives of the Army over the 5-year period;
>
> b. To furnish adequate and timely guidance to the Army Staff and major subordinate commands and agencies which will enable each to prepare his [sic] annual program and execution schedule;
>
> c. To establish a sound basis for the formulation, justification, and execution of the Army budget in support of the approved program;
>
> d. To permit continuing evaluation of performance measured against the utilization of available resources.[11]

Headquarters, Department of the Army, develops five Control Programs: Troop, Installations, Material, Reserve Components, and Research and Development. These programs cover a period of five fiscal years, coinciding with the time span of the mid-range planning period. The budget year is the third or middle year of this five-year period. Each control program outlines, for the specified five-year period,

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[11] U. S., Department of the Army, Department of the Army Planning and Programming Manual, FM 101-51, October, 1957, pp. 45-46.

an approved course of action in consonance with Army Strategic Plans. The control programs comprise the Army Program which enables each annual budget to be planned as a segment of an orderly long range plan to improve the Army's capability to mobilize, deploy, and support combat forces. The programs are developed and issued annually to furnish coordinated direction to all elements of the Army Staff. The responsibility for the development of the control programs is assigned as follows:

Control Program	Primary Staff Responsibility
Troop Program	Deputy Chief of Staff - Personnel
Installations Program	Deputy Chief of Staff - Logistics
Material Program	Deputy Chief of Staff - Logistics
Reserve Components Program	Assistant Chief of Staff - Reserve Components
Research and Development	Chief of Research and Development

Responsibility for a Department of the Army Control Program includes:

a. Development and annual revision of time-phased quantitative and qualitative objectives for the Control Program in consonance with approved Army plans and guidance.

b. Review of performance in relation to the objectives of the Control Programs.

c. Periodic reporting on the status and projection of accomplishment of Control Programs objectives.

d. Appropriate action to insure accomplishment of Control Program objectives.[12]

Navy

The Chief of Naval Operations and the Commandant of the Marine Corps are responsible to the Secretary of the Navy for formulating and

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[12] U. S., Department of the Army, Department of the Army Planning and Programming Manual, FM 101-51, October, 1957, p. 50.

developing program objectives for the Navy and Marine Corps respectively. Program objectives in the Department of the Navy are classified under three general headings:

1. Annual Program Objectives
2. Projected Program Objectives
3. Long Range Objectives

Annual Program Objectives provide the broad base for annual budget estimates for the Naval Establishment and are discussed in detail in the "Annual Programs" section which follows.

Projected Program Objectives are considered to be a part of mobilization objectives and relate to the five-year period immediately following the Budget Year. These objectives provide a basis for development and improvement of the Naval Establishment by annual increments during the period. The procedures and responsibility for formulating, developing, and promulgating the Projected Program Objectives are the same as for the Annual Program Objectives.

The Long Range Objectives define the Department of the Navy objectives for the period of seven to fifteen years subsequent to the Budget Year in support of the Long Range War Plans. The Long Range Objectives provide a general sense of direction to the total Navy programming effort but are not used directly in the formulation of the budget.

Air Force

The primary purpose of Air Force programming is to provide the types and quantities of forces, within the limitations of anticipated resources, that will best fulfill the missions of the Air Force. Program Objectives are designed to guide the development of the Air Force toward the long range goals as defined by long range war plans and Air Force planning objectives. The Program Objectives are basically an extension

of existing programs and provide guidance for the preparation of the detailed program documents.

Two procedures for the development of the Program Objectives have been used in the Air Force. In the first of these procedures, the Air Staff prepared Preliminary Program Objectives which, after approval by the Chief of Staff, U. S. Air Force, were sent to the major air commanders for review. A conference (Program/War Plans Review Conference) was then held between representatives of the major air commanders and interested members of the Air Staff for the purpose of reviewing and modifying the Preliminary Program Objectives. After incorporating the recommendations of the Program/War Plans Review Conference, the objectives were submitted to the Chief of Staff for his approval. Following approval by the Chief of Staff the document was promulgated to the Air Staff for guidance in the preparation of the detailed expression of the program.[13]

The procedure in current use in the development of program objectives is centered around the use of a group of boards to determine required modifications to program objectives on a continuing basis. The five boards which have a part in this process are as follows:

a. Air Force Council
b. Force Estimates Board
c. Weapons Board
d. Military Construction Board
e. Budget Advisory Board

The members of these boards are drawn from senior members of the Air Staff. To create the continuity and coordination required to make this system operate effectively, certain memberships on some boards are necessarily interlocking. Proposed changes to programs that are developed,

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[13] U. S., Department of the Air Force, USAF Program Process, AFM 27-1, May, 1958, pp. 8-9.

by reason of changes either within the Air Force or in policies or objectives established by sources outside the Air Force, are presented to one or more of these boards for their evaluation. The determinations of the lower echelon boards are reviewed by the Air Force Council and are then passed, together with the Council recommendations, to the Chief of Staff for his approval. The approved objectives or modifications to objectives constitute guidance to the Air Staff for development of, and change to, the detailed program documents. These program documents serve, among other purposes, as the primary budget guidance for use of the major commands in the budget preparation process. This procedure of programming is shown schematically in Figure 2.

The use of these boards and the introduction of the approved changes in objectives into the detailed program documents on a continuing basis negates the need for a formal program objectives document. It should be stressed that program objectives such as those of the Navy have not been dropped but merely are realized by a different means.

Annual Programs

Army

The Chief of Staff in December issues annual instructions to the Department of the Army Staff for the preparation of the control program objectives and summary budget document. These instructions contain major objectives and guidance for the development of each control program and order-of-magnitude budget estimates for each major Army appropriation.

Following the decision on the document, the Chief of Staff issues an annual Control Program Directive. This directive, issued in January, eighteen months prior to the Budget Year, incorporates approved objectives,

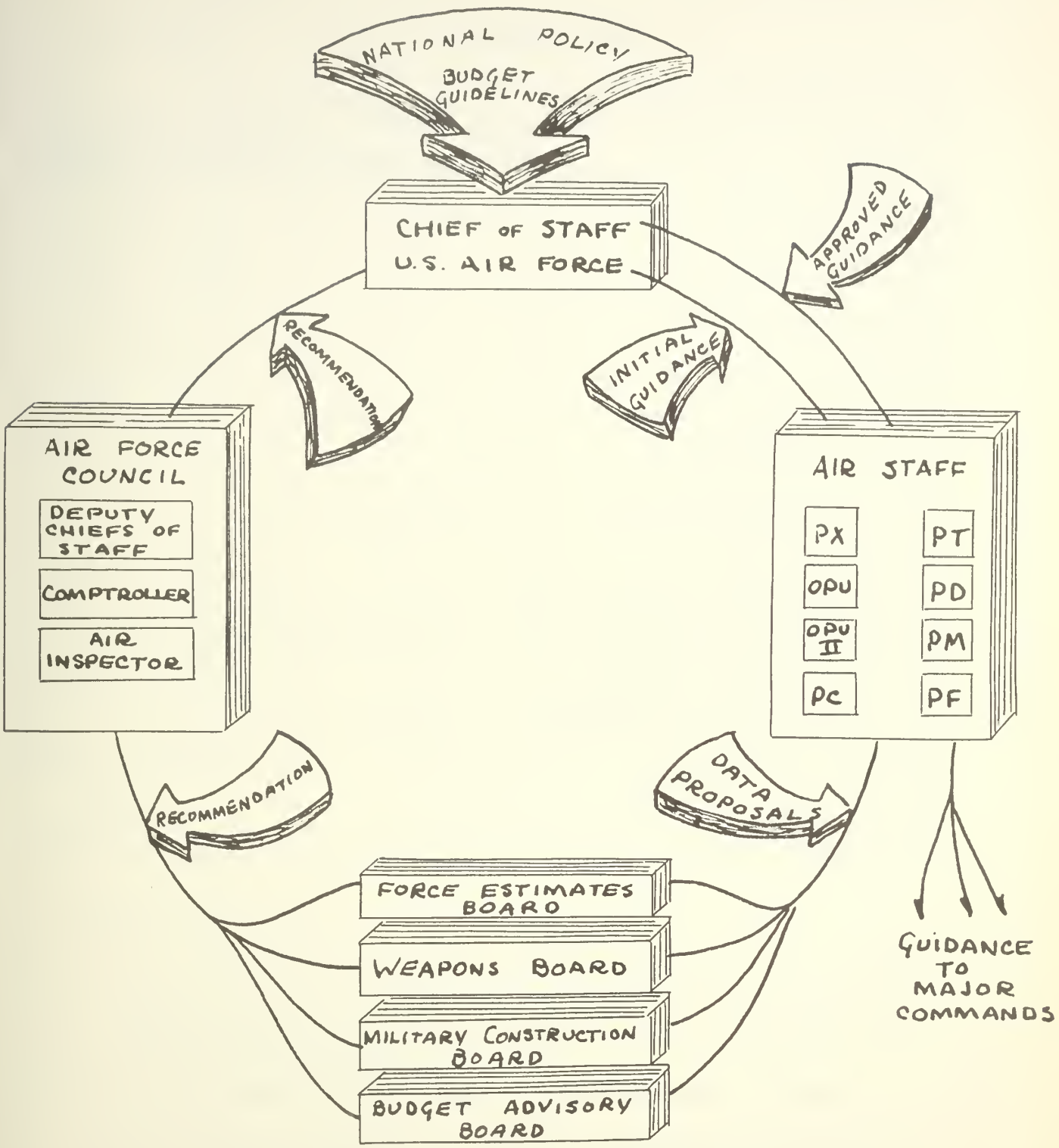

FIGURE 3. PROGRAMMING - U.S. AIR FORCE

BOARD MEMBERSHIP

Title	BOARDS			
	Force Estimates	Weapons	Military Construction	Budget
Director of Plans	✓(c)	✓		
Director of Programs	✓	✓	✓	✓
Director of Operations	✓	✓	✓	✓
Director of R & D	✓	✓		
Director of Requirements	✓	✓(c)	✓	✓
Ass't C/S Intelligence	✓			
Director Procurement & Prod		✓		
Director of Budget		✓	✓ (c)	✓
Director--Materiel Program			✓	
Director--Personnel Planning			✓	✓
Ass't for Development Planning			✓	✓
Director--Installations				✓ (c)
Director--Logistics/Plans				✓

(c) Chairman

FIGURE 3A MEMBERSHIP OF AIR FORCE ADVISORY BOARDS

dollar targets, special assumptions, and supplemental guidance for the development of the programs.

Upon receipt of the directive, responsible Army staff agencies develop and coordinate the programs. The Department of the Army Program Advisory Committee then reviews the programs and submits recommendations to the Office, Chief of Staff, for approval. All basic program documents are published prior to 15 May of each year and distributed to major subordinate commands and agencies. Each publication of a control program document supersedes the document of the preceding year. As an example of the information and guidance contained in these documents,

the Troop Control Program . . .

1. Establishes objectives and guidance for the strength and structure of the Active Army.

2. Specifies activations, inactivations, reorganizations, troop bases covering civilian and military personnel, deployments, and broad readiness goals to meet the requirements of the Army Strategic Objectives Plan and plans for limited combat.

3. Provides guidance for the procurement, distribution, training, movement, management, and pay and welfare of Army personnel.[14]

Navy

Annual Program Objectives have been defined by the Chief of Naval Operations as--

expressions of reasonably attainable goals which are planned for accomplishment during a particular fiscal year. They serve as the basis for the development of detailed requirements upon which budgetary estimates are prepared and for development of the Basic Naval Establishment Plan.[15]

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[14] U. S., Department of the Army, Department of the Army Planning and Programming Manual, FM 101-51, October, 1957, pp. 50-51.

[15] U. S., Department of the Navy, Office of the Chief of Naval Operations Instruction 5010.10, June 5, 1956.

Annual Program Objectives are not "spur-of-the-moment" ideas. The majority of these objectives are a part of the longer range Projected Program Objectives that have been under consideration and development for many months, and in some cases for several years. The annual increment from the Projected Program Objectives, plus other programs prescribed and recommended by the Secretary of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps, program sponsors, and bureaus and offices, provides the base for the annual program for the year under consideration.

The Chief of Naval Operations is responsible to the Secretary of the Navy for coordinating and integrating the program objectives for the Naval Establishment; consequently, close liaison and collaboration between the Chief of Naval Operations and the Commandant of the Marine Corps is essential on matters of Marine Corps interest. The Chief of Naval Operations has prescribed procedures for the preparation of the Department of the Navy Annual Program Objectives by designated program sponsors. These sponsors include:

Commandant of the Marine Corps
Deputy Chiefs of Naval Operations
Assistant Chief of Naval Operations (Naval Reserve)
Chief of Naval Material
Chief of Naval Research
Director, Naval Petroleum Reserves
(Others may be designated by the Chief of Naval Operations).

Each sponsor is responsible for one or more broad programs, such as the Personnel Allocation Plan, Shipbuilding and Conversion Program, Ships' Overhaul, Military Construction Program, Aircraft Procurement Program and so forth. The composite objectives for all programs for a specific fiscal year constitute the Annual Program Objectives for the Department of the Navy.

The Chief of Naval Operations has designated the Assistant Chief of Naval Operations (General Planning)/Director, General Group, to coordinate and integrate Annual Program Objectives. In accordance with

guidelines the Director, General Planning Group, prepares a tentative broad outline of assumptions which is submitted to the program sponsors. Their comments and recommendations, together with the latest supplementary data from other official sources, are used in the preparation of the broad guidance disseminated to the program sponsors for use in formulating and developing program objectives.

As the various requirements are developed and submitted by the program sponsors, the Director, General Planning Group:

a. Assists in providing cross-distribution of information to other program sponsors.

b. Assists in resolving differences in programs and between sponsors.

c. Provides data, as developed, to the Comptroller of the Navy for assistance in the preparation of short method, one-line budget estimates.

d. Prepares and distributes to appropriate agencies the draft of the Department of the Navy Annual Program Objectives for submission to the Chief of Naval Operations Advisory Board on the Naval Establishment Programs and Budget, pointing out any unresolved differences in annual programs.

e. Promulgates the Department of the Navy Annual Program Objectives after approval by the Secretary of the Navy.

To assist in the review of program and budgetary matters, the Chief of Naval Operations has established the Chief of Naval Operations Advisory Board on the Naval Establishment Programs and Budget (more commonly referred to as CAB).[16] The duties of the Board are to advise and make recommendations to the Chief of Naval Operations with respect to Departmental programs and their budgetary and manpower implications, and such other matters as the Chief of Naval Operations may direct. The Board membership is composed of:

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[16] U. S., Department of the Navy, Office of the Chief of Naval Operations Instruction 5420.2B, June 22, 1957.

Vice Chief of Naval Operations (Chairman)
Deputy Chiefs of Naval Operations
Chief of Naval Material
Assistant Chief of Naval Operations (General Planning)
Deputy Comptroller of the Navy
Representative of the Commandant of the Marine Corps

The Bureau Chiefs and the heads of other interested Offices of the Department of the Navy serve as associate members of the Board and provide a broad base of technical and specialized knowledge for use in the Board deliberations. The Director, General Planning Group, acts as Secretary of the Board.

The Annual Program Objectives are reviewed by the Chief of Naval Operations Advisory Board to assure that they are in proper balance and are reasonably attainable in the fiscal year under consideration. For this review, the Assistant Comptroller, Director of Budgets and Reports, furnishes the Board with a rough price-out of the program objectives, as initially prepared, to assist in determining whether the total cost is within a range considered to be reasonably attainable in the fiscal year under consideration. During this review, an attempt is made to resolve any existing differences in the various programs.

Upon completion of the review by the Board, the Annual Program Objectives are submitted to the Chief of Naval Operations for his consideration (in collaboration with the Commandant of the Marine Corps on matters of Marine Corps interest) and are then forwarded to the Secretary of the Navy for his consideration and formal approval.

Air Force

The development of the detailed program documents which form the primary guidance for the major air commands in the development of their budget estimates commences on 15 December. Approximately one month prior

to this date, the Program and Procedures Division of the Directorate of Programs produces and distributes to the Air Staff the Administrative Plan for Preparation of Detailed Program Data. This document sets up the time schedule for the preparation of the various program documents and data and indicates the offices responsible for the preparation of each. The Program and Procedures Division is responsible for coordinating and consolidating the detailed programming effort. The preparation process takes approximately forty-five days and results in eight program documents which form the basic detailed program guidance used by the major commands in preparing their budget estimates. These documents are:

Program Guidance (PG)
Base Utilization and Major Deployment (PD)
Aircraft and Missiles (PX)
Flying Hours (PF)
Manpower and Organization (PM)
Communications-Electronics (PC)
Priorities of Programmed Units (OPU)
Programmed Special Weapons Capabilities and Equipage (OPU-II)

An example of the information and guidance contained in these documents is:

Aircraft and Missiles Program (PX)

1. Shows the inventory of aircraft by type, model, and series, by major air command, phased quarterly for 4½ years.
2. Allocates missiles, less guided aircraft rockets, by type, model, and series, by command, quarterly for 4½ years.
3. Allocates drones to the commands responsible for operation of drone units, by command, by type, model, and series, by assignment codes for 4½ years.[17]

The time-frame covered by the program documents varies from 1½ to 4½ years depending on the lead time that is required in planning.

During each program cycle, the Air Staff produces additional program information that supplements the principal program documents.

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[17]U. S., Department of the Air Force, USAF Program Process, AFM 27-1, May, 1958, p. 17.

This information, "supplementary program data", generally covers the same projection period as the principal programs but normally is limited to one subject. The data usually has specific use by particular commands or by review authorities as contrasted with the more general application of the principal program documents.

The Air Force has made substantial use of electronic data processing equipment in its programming effort. Two of the principal detailed program documents (Aircraft and Missiles, and Flying Hours) are prepared by mechanical means and several of the other documents are only a few steps removed from the use of mechanical preparation procedures. The use of such procedures expedites preparation, provides for better integration of the programming effort, and gives greater flexibility to programming as a whole. These are of particular importance because the detailed programming is repeated on a quarterly basis.

The quarterly revisions in the detailed program documents incorporate changes in objectives, changes in production schedules, and revisions in plans and factors affecting the programming effort. In addition to serving as a primary tool for use in preparing budget estimates, the program documents also serve as the basis for the financial plan and as a standard for measuring performance.

Guidance Issued

Army

Headquarters, Department of the Army, prepares a separate Program and Budget Guidance document for each command or agency reporting directly to and funded by the Department. Each document covers the non-tactical operations of the individual addressee for the specified fiscal year. The Program and Budget Guidance document is issued three times during the budget formulation process for a given fiscal year and each issue is

increasingly more definitive and specific. The first is issued approximately fourteen months in advance of the Budget Year; the second five months before the start of the year; the last one, reflecting the apportionment of funds, at the start of the newly budgeted fiscal year. Agencies of Headquarters, Department of the Army, have the following responsibilities in connection with this document:

> a. Transfer of the annual increment of objectives from the control programs to the Program and Budget Guidance.
>
> b. Development or coordination of additional guidance required to complete the assigned portions of each Program and Budget Guidance.
>
> c. Performance review of the accomplishment of programmed objectives and the utilization of supporting resources.[18]

The Program and Budget Guidance document contains five sections. While detailed content varies with each addressee, the sections normally cover: (1) Missions, (2) Control Guidance, (3) Guidance by Budget Classification, (4) Support Services Guidance, and (5) Administrative Instructions.

> The major steps in the development of the Program and Budget Guidance are--
>
> a. The Chief of Staff issues instructions in March, December, and June respectively, covering the preparation of the three issues of the Program and Budget Guidance.
>
> b. Department of the Army Staff agencies, in accordance with the assignment of responsibilities . . .
>
> (1) Develop sections I, II, and V of Program and Budget Guidance applicable to each command or agency concerned.
>
> (2) Develop sections III and IV of Program and Budget Guidance showing total Army objectives, policies, and estimated funds applicable to each of the subdivisions of section III; and total objectives, standards, and estimated funds applicable to each of the subdivisions of section IV.

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[18] U. S., Department of the Army, Department of the Army Planning and Programming Manual, FM 101-51, October, 1947, p. 56.

(3) Divide the totals from (2) above into portions, within each subdivision of sections III and IV, applicable to each command or agency concerned.

c. The Department of the Army Program Advisory Committee reviews the tabulations described in b above to insure continuity and balance throughout, and recommends adjustments or approval to the Chief of Staff.

d. Following approval, Program and Budget Guidance is issued to commands and agencies concerned.[19]

Navy

The Chief of Naval Operations provides guidance to the Naval Establishment through approved Annual and Projected Program Objectives and by direct and indirect participation in departmental budget processes and reviews. The Annual Program Objectives are submitted to the Naval Establishment by the Chief of Naval Operations about sixteen months prior to the beginning of the Budget Year. The Projected Program Objectives are issued about four months later. Approved changes to the program objectives are published to the Naval Establishment periodically.

The Comptroller of the Navy provides guidance to the Naval Establishment in matters governing the preparation, justification, and submission of budget estimates. Specific guidance is rendered through the Navy Comptroller Manuals, Instructions, and Notices, and through individual contacts with departmental activities.

The annual Call for Estimates is a Comptroller of the Navy Notice addressed to Headquarters, U. S. Marine Corps, and those bureaus and offices responsible for developing budget estimates to support the Annual Program Objectives. The call is scheduled for release on the same date as the Annual Program Objectives.

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[19] Ibid., pp. 57-58.

Air Force

During the month of January the Annual Call for Estimates is prepared by the Directorate of the Budget and is promulgated to the major commands and operating agencies. The call announces policies to be observed in preparing the budget estimates (for a budget year beginning eighteen months in the future) and refers the major commands and operating agencies to standing budget instructions and to the appropriate program documents. Thus the Annual Call for Estimates provides the guidance as to scope and detail of the estimates and the program documents provide the basis for the estimates. With this guidance the major commands and operating agencies are ready to start preparation of their budget estimates.

Summary

All the Services prepare programs or objectives that are ultimately used as the primary basis for budgeting.

The Army uses five Control Programs as a basis for developing a balanced Army Program. The Army Program covers a five-year period in which the Budget Year is the third or middle year. This insures that the annual increment of objectives which is transferred from the control programs for use in developing the Program and Budget Guidance will be in consonance with the long-range program effort. The Department of the Army Program Advisory Committee reviews both the annual revisions to the control programs and the Program and Budget Guidance and submits them, together with recommendations, to the Chief of Staff, United States Army, for his approval.

The Navy programming effort results in two documents used in the budget process--Projected Program Objectives and Annual Program Objectives. The Projected Program Objectives cover the five-year period subsequent to the Budget Year. The Annual Program Objectives (which are applicable to the Budget Year) are an increment or extension of the Projected Program

Objectives of the prior year. The Annual Program Objectives are further developed and then reviewed by the Chief of Naval Operations Advisory Board. The Board submits the Annual Program Objectives, together with its recommendations, to the Chief of Naval Operations for his consideration (in collaboration with the Commandant, United States Marine Corps, on matters of Marine Corps interest). The document is then submitted to the Secretary of the Navy for approval prior to promulgation.

The Air Force does not issue a formal statement of objectives. Program Objectives are developed and modified on a continuing basis through the use of a series of boards. Changes to previously stated objectives or new objectives are incorporated in each subsequent quarterly publication of the program documents, which form the detailed expression of the Air Force Program. The detailed program documents cover a period of $4\frac{1}{2}$ years and serve as the primary basis for preparation of the budget estimates.

Each of the Services issues its own procedural instructions for preparing and justifying budget estimates. The procedures differ because of the different methods followed in developing budget estimates. In the Army the procedural instructions are primarily designed for use by the Army Staff, while in the Navy and the Air Force they are prepared principally for use by major commands.

CHAPTER III

BUDGET FORMULATION AT AND BELOW THE COMMAND LEVEL

Introduction

This chapter examines Army, Navy, and Air Force budget formulation procedures at and below the major command level. The organization for budgeting has been investigated in each of the Services at these levels, but little generalization is possible. The Services' headquarters organizations for budgeting not only differ one from another, but installations within each Service have different organizations for budgeting. For example, some Air Force installations have comptrollers and some do not; some Air Force installations participate in budget formulation, and some do not. Similar conditions exist in the Army and the Navy.

The comparison of the actual budget formulation processes is complicated by the fact that responsibility for formulation is not fixed at the same levels in the three services. In the Army the major responsibility rests at the departmental level; that is, above the major command level. In the Navy responsibility for budget formulation is fixed at the major command (Bureau) level. And in the Air Force responsibility is shared by the departmental and major command levels.

The problem is in part one of semantics. Budget formulation is a circular, continuing process. The channels of information in the three Services lead to the same destination--a military budget. And from the over-all point of view, the procedures--although certainly not

identical--are at least comparable.

Budget Formulation and Review at the Major Command Level

Army

In this discussion the term "major commands" means the Continental U. S., the Military District Washington, and the Overseas Commands.

> The Army has adopted formulation procedures which recognize that initial program and budget guidance is generated within the Department of the Army and that firm and definitive Program approval will usually be forthcoming only after budgets are developed, submitted, and reviewed by higher authority. Effective participation by field agencies can be obtained only when the Department of the Army is in a position to issue relatively firm guidance to its major commands.[20]

Since the Department of the Army has rarely been in a position to issue "relatively firm guidance" in recent years, the Army has adopted procedures which place the major responsibility for budget formulation at the departmental level. This is not to say that the major commands do not participate in budget formulation. They do; and it is the extent of this participation that is described in this chapter.

Each of the major commands has a comptroller who is the commander's principal staff officer for budgeting. The comptroller is responsible for preparing, or issuing the directive for the preparation of, the Commander's Statement and Budget Summary.

As described in Chapter II, the Preliminary Program and Budget Guidance is prepared by the Department of the Army approximately fourteen months in advance of the Budget Year and this Guidance is passed to each Overseas Command and the Continental Army Commands. In accordance with this Guidance, the Current Year Budget Execution Plans, and current report--such as the Installations' Budget Execution Plans--the major

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[20] O. C. Culbreth, "How the Army Budget Process Works," Armed Forces Management, February 1958, p. 16.

commands prepare an annual Commander's Statement and Budget Summary. This Summary, made up of two sections, replaces the lengthy budget estimates which were formerly required from the major commands.

The Commander's Statement section includes a general presentation of the command interpretation of the over-all impact of the Department of the Army Primary Programs on the specific command concerned as compared with the command programs for the current year and the approved current annual funding program. It also includes appropriate statements concerning the Army Primary Programs, and the controlling programs, such as the Troop Program, Installations Program, and Material Program. In addition, information and comment is included under the titles of each applicable appropriation and budget program. This information and comment compares the program activities funded thereunder for the Prior Year and Current Year with those required for the Budget Year. When desirable, because of increases and decreases in the various activities within a budget program or the diversified nature of certain budget program elements, commander's comments concerning such matters may be included. The assumptions and program guidance which the command employed in the development of the Commander's Statement are also set forth.

The second section, the Budget Summary, tabulates by appropriation and budget program the actual and estimated requirements for three fiscal years: the Prior Year, the Current Year, and the Budget Year. The Prior Year entries are the actual obligations based on the latest reports. The Current Year figures reflect the approved command adjusted Budget Execution Plan (adjusted in accordance with the Command's approved annual funding program). The Budget Year amounts are the estimated requirements for the command programs and command requirements not

specifically covered by these programs. The commander . . . " . . . compares his expected fund availability for the current year with the requirements for the budget year and points out activities which will require either more or less money than in the current year."[21]

The Commanders' Statements and Budget Summaries are submitted to the Department of the Army in July and August. They are submitted in time to be used in the preparation of the estimates for the budget that will be in effect one year hence.

Navy

For budgetary purposes the major commands within the Navy are the various bureaus, offices, and Headquarters, U. S. Marine Corps. Each bureau and office has a comptroller (the U. S. Marine Corps has a Fiscal Director) with assigned duties in the area of financial management. These duties include coordination of program requirements and formulation of the budget for his component.

The budget formulation for a given fiscal year begins in the various offices, bureaus, and Headquarters, U. S. Marine Corps, about the first of February, when the Comptroller of the Navy issues the Call for Estimates. This call is for a budget to cover the fiscal year beginning in seventeen months. Included in the Call for Estimates are appropriate guidance and necessary instructions as described in Chapter II. The offices, bureaus, and Headquarters, U. S. Marine Corps, have about five months in which to prepare their budget estimates. These estimates must be submitted to the Navy Comptroller about July 1st for review and incorporation in the Department of the Navy budget.

Upon receipt of the Call for Estimates from the Comptroller of

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[21] Ibid., p. 18.

the Navy, the offices, bureaus, and Headquarters, U. S. Marine Corps, issue instructions to their division heads and others concerned with budget formulation. These instructions amplify the Navy Comptroller's Call for Estimates and give necessary internal guidance, which generally includes a time table for the five months that the budget is under preparation and review.

Some offices and bureaus have standing instructions concerning the manner and method by which budget estimates are to be submitted to the office or bureau. The amplifying instruction in such cases merely sets the process in motion and establishes a time table. Some offices and bureaus prepare the budget internally, using information already available, and request no supplementary information from the field. Other bureaus, although the budget is prepared at the bureau, request considerable information from field activities before they proceed with budget formulation. Estimated fleet requirements are provided by the major fleet commanders to the bureaus for use as guidelines in bureau budget formulation.

The Commandant of the Marine Corps promulgates a standing operating procedure for the preparation of the budget. This goes to the staff sections and to the Quartermaster General. Instructions are prepared for each of the major categories of the budget document.

The Navy Research and Development Program and the Navy Military Construction Program follow a somewhat different pattern. Appropriate guidelines for the Research and Development Program are received by the Chief of Naval Research from the Assistant Secretary of the Navy for Air. The Chief of Naval Research in turn forwards these guidelines together with amplifying instructions to the bureaus and the Headquarters, U. S. Marine Corps, for integration into a single Navy Research budget.

The Navy Military Construction Program is coordinated and controlled by the Bureau of Yards and Docks. This program is a continuing one. It begins with construction requirements submitted by installation commanding officers as approved by local shore development boards. Construction requests are forwarded to the sponsoring bureau for review of the need and the estimate. The sponsoring bureau forwards the request to the Bureau of Yards and Docks for integration in the over-all Navy construction budget.

At the end of the five-month budget formulation period, each office and bureau, and the Headquarters, U. S. Marine Corps, integrates by appropriation those budgets for which it is responsible. These budgets are carefully reviewed by the Chiefs of the Bureaus, the Heads of the Offices, and the Commandant of the Marine Corps. The budgets are submitted to the Comptroller of the Navy about the first of July.

Air Force

Major and intermediate Air Force commands such as the Strategic Air Command, have had the Air Material Command, and the Air Defense Command comptrollers since 1948. One of an Air Force comptroller's functions is the development of budget estimates. A budget officer is usually assigned to the comptroller, but the comptroller has staff responsibility for developing and justifying budget estimates. The Air Force budget structure is designed to segregate requirements for capital items from operating costs and to segregate fund requirements by appropriation, budget program, and project. Responsibility for budget estimation follows established organization lines.

Headquarters, U. S. Air Force, forwards guidance to all major commands as described in Chapter II. This guidance is used in developing the Annual Financial Plan for the Current Year and the budget estimates

for the Budget Year. The Calls for Estimates are received by the major commands in January or early February of the Prior Year. Each major command is required to develop budget estimates and justifications of requirements to support the approved programs. The major commands assign responsibility, to the extent necessary, to intermediate and installation commanders for the development of budget estimates and for the justification of specific items and services in support of projects and programs. Thus in February of the Prior Year, the major commands prepare and issue the necessary program guidance and the command's call for budget estimates for the Budget Year. At the same time, they issue the Financial Plan for the Current Year.

Budgeting activities, which may be by major commands, intermediate commands, or installations, prepare the budget estimates by project and sub-project. They conduct the necessary reviews and submit the estimates to the next higher reviewing authority. The installation budget estimates are consolidated by the intermediate command and reviewed by the commander and his staff or an assigned committee for completeness, reasonableness, and possible mark-up.

Generally the budget estimates are received at the major commands during the first week of June of the Prior Year. The commander and his staff, or a review committee, spend the months of June and July reviewing, revising, and adjusting the estimates to evolve the command budget. Upon approval by the commander, the budget estimates are submitted to Headquarters, U. S. Air Force.

The Air Material Command is an exception to the general rule. It has a decentralized system for budgeting. Each of the Air Material Command installations has assigned programs, projects, and sub-projects for which it has the responsibility for developing the budget estimates

and justifications.

> The Air Material Command's budget estimates are based upon the refinement and consolidation of installations' estimates together with the application of factors and program data not available to installations.[22]
>
> The Air Material Review Committee is fundamentally concerned with the review of Command programs and policies as related to total programs and policies of the Air Force and the Department of Defense. . . .[23]

The Air Material Command Budget Review Committee makes adjustments which permit a unified position and expedites staff coordination. The Committee is the over-all adviser to the Commander, Air Material Command.

Budget Formulation at the Installation Level

Army

It is possible to contend that Army components at the installation level--such as Fort Meade, an installation of the Second Army--do not participate in budget formulation at all.

> Research reveals that field commands become interested in the target fiscal year primarily after programs and operations for the current year have been squared away and are well along.[24]

This consideration, in conjunction with the impossibility of issuing firm guidance to the major commands, has influenced the Army to adopt procedures which place greater responsibility for Army budget formulation on the departmental staff.

But to contend that there is no participation in the actual budget formulation process by Army installations would be an error. Such a contention would fail to recognize that data on current operations are an important factor in budget formulation. This information is being

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[22]Air Material Command, Manual of Budget Operations, (AMC Manual 172-1, U. S. Government Printing Office, 15 May 1958), pp. 3-5.

[23]Ibid., pp. 3-77.

[24]Culbreth, op. cit., p. 16.

supplied continuously by Army installations. It is obtained through supervision of the budget systems of the installations, maintenance of administrative control of appropriated funds, and sub-allotment of funds to activities dependent upon the installations for fund authorization. The information is obtained by supervising, on a current basis, such budget execution plans as are in effect. Much of these data are only partially usable, but, as a record of what has happened and what is happening, they are an indispensable contribution. After consolidation by the field commands, portions of the data are used by the departmental staff in budget formulation.

During April and May, Army installations develop their Budget Execution Plans for the fiscal year beginning the following July in consonance with program guidance and Budget Execution Plan Directives received from the appropriate field commands. Fort Meade, for example, receives program guidance and a Budget Execution Plan Directive from the Second Army. The installations are, in effect, stating how they will spend their money if they are funded as tentatively suggested by their cognizant field command. The installation's comptroller is assisted in the preparation of the Budget Execution Plan by representatives of units on the post. In reviewing estimates the comptroller is assisted by appropriate supervising staff officers. The installations' Budget Execution Plans are submitted to the field commands for approval. After reviewing the installations' estimates, the field commands hold them until the Department of the Army issues its funding program.

Thus it can be seen (but it should be emphasized) that the installations' Budget Execution Plans play no formal role in budget formulation for the Budget Year. They serve instead as a basis for the allocation of funds. Later they may aid the field command in the

preparation of the Commander's Statement and Budget Summary for the next Budget Year and contribute to the continuing process of budget formulation.

Navy

The Navy's budget formulation procedures at the installation level differ because the installations are under the management control of different bureaus of the Navy Department. This discussion is an attempt to outline the general procedures only.

The budget guidance for the maintenance and operation of an installation is received by the installation from the cognizant bureau during the later part of January to the later part of March of the Prior Year. Guidance is provided concerning personnel, operations, and logistics. An installation may have appropriations for purposes other than maintenance and operations for which it must also submit budgets. Military construction and procurement budgets are two examples. Guidance is received separately for these.

On the basis of the guidance received and personal knowledge of the factors which should influence budget decisions, the installation's staff prepares a proposed station operating plan. This plan contains guidance on all budgets which the installation must submit; it is disseminated to all departments of the installation responsible for preparing budget estimates.

Upon receipt of the proposed station operating plan and budget call from the station commander--around the middle of March of the Prior Year--department heads begin preparing the budget estimates. Specific local guidance is obtained through consultation with cognizant staff officers and from the proposed station operating plan. Departments inform each cost center through informal conferences of projected operations for the Budget Year.

Initial estimates are prepared on an item basis. These estimates are based on past usage, adjusted to the requirements of the proposed station operating plan. The estimated costs may reflect: (1) estimated unit costs such as cost per student in-put, cost per unit produced, or cost per flying hour; (2) estimated costs derived solely from records when unit costs cannot be assigned; and (3) estimated costs for materials and services to be purchased commercially. These item estimates are converted into the performance format required by each station.

The formats examined had little in common except that they all itemized estimates by expenditure account number. The departments budget principally in the maintenance and operations area. The functional officers prepare written justifications for presentation to the department heads and interested departmental officers. This presentation is the departmental review of the budget. After this review, the department head defends his budget before the Commanding Officer. The functional officer or the department head may be instructed to re-submit his requirements on the basis of a priority-of-items list or he may be required to deduct a flat percentage from his original estimate.

In addition to the requirements budget, departments at some stations submit a budget based on estimates by the station comptroller of probable allotments to be received in the budget year. The cutting of the requirements budget is accomplished by assigning priorities to all items and eliminating those of the lowest priority.

As each portion of the budget is completed by the staff, the supporting justifications are written. After the estimate is completed, it is examined by all interested staff members. The installation commander submits the station budget to the appropriate Navy Bureau during April of the Prior Year.

Air Force

Major Air Force commands may or may not pass down their annual calls for budget estimates to the installation level. For purposes of budget formulation, Air Force wings, divisions, groups, and squadrons are considered to be on the installation level. When the major commands issue the call, the wings have local forms prepared for accumulating and consolidating the budget estimates.

The organization commanders advise the installation's budget division of changes in missions or programs which will change the dollar requirements for either the Current or Budget Years. The appropriation accounts for which the wing is responsible are itemized in the call. But, if necessary and justifiable, deletions or additions may be made to this list for the Current and Budget years. For example, prior to the Fiscal Year 1960 call, installation commanders submitted their requirements without regard to ceilings. By much effort the major commands reduced these requirements to more realistic size. When installation estimates are prepared for FY 1961, calls and guidance are expected to be provided down to the squadron level. Any requirements in excess of guidance ceilings are submitted separately and justified individually.

The Budget Year ceilings are based on the Prior Year budget authorizations, but they may be changed during the call month as circumstances warrant. Civilian personnel requirements are submitted for the Current and Budget Years. Projected civilian personnel strength must not exceed that on 30 June of the Prior Year. Travel and per diem requirements are estimated both for the Current and the Budget Years.

Each Air Force installation has financial managers. Andrews Air Force Base, for example, has five financial managers. The managers meet with the Deputy Wing Commander as the Wing Budget Advisory Committee.

Requirements are prepared in two main sections: basic requirements and minimum essential requirements. Both sections are completed for each budget code or account. Quarterly phasing is estimated and shown for the Current Year financial plan only. The Current Year requirements are phased by quarters using the actual working days per month as a guide. The estimates are submitted to the Wing Commander for approval. When approved by the Wing Commander, the estimates go to the major command for consolidation with the estimates of other wings in the command. Factorial estimates (unit cost estimates) and functional estimates are recast into program estimates.

The initial call for estimates is released in February calling for estimates for the succeeding two years, the Current Year and the Budget Year. The wing is required to submit the estimates for maintenance and operation funds to the major command by the later part of February of the Prior Year. The Budget Division presents the wing estimates to the Wing Advisory Committee early in March of the Prior Year.

The Air Force believes that active participation in budget formulation by the installations simplifies budget preparation, helps overcome the tendency to over-refine budgets, develops an index for measuring past performance, and aids in the detection of items that are out of line.

Summary

The Departments of the Navy and of the Air Force issue to their major commands their calls for estimates for the Budget Year in January or February of the Prior Year. The Department of the Army, which has shifted greater responsibility for budget formulation to the departmental level, does not issue its Budget Formulation Directive for the Budget Year to major Army commands until May of the Prior Year. But the Navy and Air Force calls and the Army directive serve identical purposes: they

provide the major commands with budget guidance and they request budget estimates.

The methods which the major commands use to compile their budgets differ inter-service and intra-service. Army major commands do not request budget estimates for the Budget Year from their component installations. But it should be noted that at the time an Army major command is preparing its Commander's Statement and Budget Summary, the installations' Budget Execution Plans for the Current Year have just been received. These plans can be used as required in preparing estimates for the Budget Year. Some Navy major commands request extensive budget estimates from their installations; others request none. Major Air Force commands may or may not pass down their annual calls for budget estimates to the installation level. When the Navy and the Air Force do not request estimates from their installations, their procedures do not differ substantially from those of the Army.

It is rash to generalize about the mechanics of compilation, consolidation, and review of budget estimates. The exceptions are more marked than the pattern. At the major commands budget formulation is a function of the comptroller. The same is usually the case at the installations if a comptroller has been assigned. The budget estimates are based on guidance concerning future plans, past and current expenditures, and the opinions of qualified individuals. The methods of amalgamating these data are complex and they differ vastly. Whatever the methods, the major commands of all three Services have their budget estimates for the Budget Year ready for submission to their departments by August of the Current Year.

CHAPTER IV

BUDGET FORMULATION AND REVIEW AT HEADQUARTERS LEVEL

In this chapter the formulation process and the budget organization are examined at the headquarters level of the three services. Budget formulation at the headquarters level, for the purpose of this paper, is arbitrarily divided into three phases--compilation, analysis, and review and approval. Admittedly, this distinction is somewhat contrived and academic, for it is impossible to draw sharp lines between the various stages through which the budget passes. A measure of review necessarily takes place continually throughout the formulation process--as estimates are compiled, analyzed, and approved.

Compilation

Army

Budget compilation in the Army is accomplished by the Department of the Army Staff in accordance with the concept that sufficient data are available at headquarters to permit the forecasting of dollar requirements for the budget year. Under the direction and administrative control of the Director of the Army Budget, Office of the Comptroller of the Army, each of the Appropriation Directors and Budget Program Directors prepares budget estimates for those programs for which he has been assigned prime responsibility. The Appropriation and Budget Program Directors are for the most part those members of the general and special staff that have had an active part in development of the Control Programs. The general and special staff principally involved as Appropriation and Budget

Program Directors are:

1. Deputy Chief of Staff, Personnel
2. Deputy Chief of Staff, Operations
3. Assistant Chief of Staff, Intelligence
4. Comptroller of the Army
5. Deputy Chief of Staff for Logistics
6. Chief of Research and Development
7. Chief, National Guard Bureau
8. Chief, Army Reserve and ROTC

The first step in compiling the budget estimates is initiated by the Budget Division, Office of the Army Comptroller. This division prepares and issues the Annual Budget Formulation Directive. In response to this directive and other guidance, the estimates are prepared by the staff elements and submitted to the Director of the Army Budget, Office of Comptroller of the Army. Each Budget Program Director is supplied with guidance documents and the tentative guidelines for the preparation of the Army Staff Budget. This guidance includes:

1. Control Program guidance for the Budget Year.
2. Budget Execution Plans for the Current Year.
3. Financial and operating reports for the Current and Prior Years.
4. Field Commanders' Statement and Budget Summaries.
5. Information on the international and national situation.

Because the extent of the above guidance is best known at headquarters, it has been recognized that effective participation by subordinate commands can be attained only when the department is in a position to issue relatively firm guidance to its major commands, and technical and administrative services; hence, the concept of Staff Formulation of Estimates.

The role of the Deputy Chief of Staff for Logistics in the budget formulation and execution process is unique. At various times in the budget planning, formulation, and execution process, he acts as a Control Program Director, a Budget Program Director, an Appropriation Director, an Associate Appropriation Director, and as the functional head of the

Technical Services. For example, the Deputy Chief of Staff for Logistics is the Associate Appropriation Director for the appropriation "Maintenance and Operations, Army" and under this same appropriation he is assigned, among others, responsibility for budget program 3100, Medical Care. He is both Appropriation Director and Budget Program Director for the appropriation "Procurement and Production, Army". In both of these examples, as head of the technical services, he forwards Budget Execution Plans of the Technical Services to the Comptroller of the Army and, as a member of the Army Staff, he reviews and approves these plans or recommends changes to accomplish the requested apportionments.

Navy

The Comptroller of the Navy receives budget estimates by appropriations with supporting data from the bureaus and offices, and Headquarters, U. S. Marine Corps. A summary budget is then prepared in terms of Navy appropriations, Department of Defense categories, and major Navy programs, such as the Polaris Program, the Anti-submarine Warfare Program, and the Guided Missile Program.

Air Force

The first step in budget compilation at the Air Force Staff level is taken by the Director of the Budget within the Comptroller Organization. The budget documents of each of the major units are divided according to appropriation budget programs and projects. Divisions within the Directorate of the Budget take cognizance of specific programs, consolidating the various requests for analysis by the Air Force Headquarters Staff. For example, that section of each major command budget requesting funds for aviation fuel and oil (Budget program 410) is collected by the Operating and Maintenance Division. Other budget programs are collected by the divisions shown in the following organization diagram:

Comptroller
Deputy
Assistant

Director
of
Budget

Procurement & Research Division	Operation & Maintenance Division	Military Personnel & Construction Division	Special Funds Division
Aircraft & Related Procurement	Operation & Maintenance	Military Personnel	Air Force Management
Procurement other than Aircraft		Air National Guard	Industrial Funds
Research & Development		Reserve Personnel	Stock Funds
Military Assistance Program		Retired Pay and Claims	
		Military Construction	

At the same time copies of the program estimates of each of the incoming budget requests are sent to that directorate of the Air Staff concerned with particular programs. For example, data relating to budget program 410, which is based on the Flying Hours Program, is sent to the following Air Staff offices:

1. Director of Personnel Planning
2. Director of Operations
3. Director of Programs
4. Director of Material
5. Director of Development

Analysis

Army

After a budget estimate has been prepared by the staff, the Budget Program Director responsible for that estimate makes his analytical review and forwards his estimate to the Director of the Army Budget. The Budget Program Director is responsible for this estimate and will justify and coordinate the estimate through further review processes.

In the Office of the Director of the Budget these estimates are given a thorough examination by budget analysts who, for the most part, were also active in providing guidance for the preparation of the estimate. Their principal function now is to insure that proper balance has been maintained and that the estimates are properly justified. When analysis is completed in the Office of the Director of the Budget, the position of the Director of the Army Budget has been established and will be presented during the budget review before the Budget Advisory Committee.

Navy

The Assistant Comptroller, Director of Budget and Reports, Office of the Comptroller of the Navy, is assigned the following duty pertaining to the analysis and review of the Navy's Budget: to "supervise and direct the preparation, analysis, and coordination and review of the budget estimates of the Department of the Navy and the presentation of the budget to the Secretary of Defense, the Bureau of the Budget, and the Congress."[25]

The Office of the Assistant Comptroller, Director of Budget and Reports, is organized into three divisions to assist the Director in the performance of his duties. These divisions are: (1) Estimates and Analysis Division, (2) Progress Reports and Statistics Division, and (3) Budget Procedures and Manpower Division. The Estimates and Analysis

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[25]Charter of the Comptroller of the Navy, The Comptroller of the Navy, July 6, 1956.

Division is primarily concerned with the analysis and review of the Navy Budget and is comprised of the following branches:

(1) Personnel Branch
(2) Aviation and Research Branch
(3) Public Works and Service-Wide Operations Branch
(4) Ships and Ordnance Branch
(5) Supply, Medical, and Foreign Aid Branch
(6) Industrial Fund Branch

Each of the branches within the Estimates and Analysis Division analyzes the budget submissions from specific bureaus, offices, and the Headquarters, U. S. Marine Corps. There are exceptions to this general rule. For example, the Personnel Branch analyzes appropriation estimates submitted by the Bureau of Naval Personnel and the Headquarters, U. S. Marine Corps; the Ships and Ordnance Branch analyzes appropriation estimates submitted by the Bureau of Ships and the Bureau of Ordnance; the Supply, Medical, and Foreign Aid Branch analyzes appropriation estimates submitted by the Bureau of Supplies and Accounts, the Bureau of Medicine and Surgery, and those appropriation amounts pertaining to foreign aid.

The Estimates and Analysis Division does not change the amount of the budget estimates when compiling the summary budget. The division does analyze the budget, however, to determine whether the budget estimates support the approved program objectives of the Chief of Naval Operations. Checks are made to determine the cause of variances where program objectives have not been fully supported.

Air Force

The individuals from the various directorates of the Air Staff who study the same budget program work closely together in their review of individual command estimates. They form a working group and are required to develop an Air Staff recommendation for the pertinent consolidated budget program. For example, the Working Group for Aircraft

Fuel and Oil compiles the Air Force estimate of expenditures for fuel and oil. The group analyzes the estimate to see that it conforms with announced policies and programs and is consistent with the objective of accomplishing assigned missions with maximum economy. The latest changes in programming which have occurred since publication of budget guidance documents are incorporated in their deliberations.

The importance of the Working Group concept cannot be over-emphasized. These groups conduct the only detailed review of the budget programs as a whole. Composed of Air Staff representatives who are responsible for coordinating Air Force elements in the performance of the Air Force missions, the Working Groups are well equipped to hammer out a realistic budget estimate. Each member of the group, forced to justify his request for funds, presents the view of his staff department. He is guided by his superior, a Deputy Chief of Staff, and in turn reports budget formulation progress to him. The interchange vertically within the staff function and horizontally at the working level is the key to budget review in the Air Force. Dwelling on details at the budget project phase, the Working Group requires from 4 to 8 weeks, depending on the complexity of the program, to complete its deliberations. Their recommendations are presented to Budget Advisory Board (BAB).

Review and Approval

Army

Reviews at the headquarters level of the Army are conducted by the Budget Program Directors, the Appropriation Directors, the Comptroller of the Army, the Budget Advisory Committee, the Chief of Staff, and finally by the Secretary of the Army. While each of these reviews is an important step in the formulation process, the review by the Budget Advisory Board is probably the most important from the standpoint of developing the

staff prepared budget. The review by the Budget Advisory Committee constitutes what might be termed as the first top-level review of the Army budget as a unit and, therefore, has a very important place in the formulation process. The principal responsibilities of this committee are as follows:

1. Examination of approved or proposed Army programs and policies and recommendations of changes which appear to be necessary because of budgetary considerations.

2. Preparation of tentative budget plans based upon approved guidance.

3. Review of the Army budget directives prior to publication.

4. Review of the requests submitted by estimating agencies.

5. Assistance to the Comptroller of the Army in justifying the budget before higher authority and in recommendations of revisions which may be necessary as a result of actions of reviewing authorities.

6. Review of Army Funding Program.

7. Recommendation of any budgetary or financial actions which would result in an increase in the efficiency of the Department of the Army.[26]

An examination of the responsibilities of this committee indicates that this review process also may result in changes in Control Programs and funding procedures. This committee conducts the budget review in the period of mid-August to mid-September. This committee, while top-level, does not commit the Army Staff to irreversible budget decisions, for it will be noted that the membership consists primarily of Assistant Deputy Chiefs and Deputy Assistant Chiefs; however for practical purposes this group does make the final budget adjustments. The members of the Budget Advisory Board are:

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[26] Army Regulation 35-15.

1. Director of the Army Budget, Chairman, Ex-officio
2. Director Personnel Plans, Deputy Chief of Staff for Personnel
3. Assistant Deputy Chief of Staff for Military Operations
4. Assistant Deputy Chief of Staff for Logistics
5. Deputy Chief for Research and Development
6. Deputy Assistant Chief of Staff for Intelligence
7. Deputy Assistant Chief of Staff for Reserve Components
8. Chief, Program and Analysis Group, Office of Chief of Staff (non-voting).

In addition, the Chief, National Guard Bureau, and the Chief, Army Reserve and ROTC Affairs, sit as members of the committee whenever matters pertaining to Army Reserve Components are under consideration.

The findings and recommendations of the Budget Advisory Committee are transmitted to the Chief of Staff by the Comptroller of the Army about mid-September. The Chief of Staff considers for about five days the "Staff Budget" that has been presented to him and requests revisions if necessary. After his approval the budget is presented to the Secretary of the Army and the Assistant Secretaries. The Secretary will have the budget under consideration for about 10 days. Very little change in the budget is necessary at the Chief of Staff or Secretary of the Army level because both levels have been actively providing guidance and have been kept well informed on budgetary decisions made during the formulation process. The Secretary approves the "Staff Budget" and submits the Army Budget to the Secretary of Defense early in October.

Navy

The Comptroller of the Navy presents the summary budget at a formal meeting attended by the Secretary of the Navy, the Under Secretary of the Navy, the Assistant Secretaries, the Chief of Naval Operations, and the Commandant of the Marine Corps. During this presentation, the Comptroller of the Navy outlines major program deviations from prior years and other important issues. For example, major increases and decreases in budget categories from the Current Year's budget are discussed. Policy questions

concerning new facilities, manning levels, nuclear programs, and mobilization reserves are examples of areas that must be fully explored.

Based on the guidance of a "target" budget assigned to the Navy by the Secretary of Defense, the Assistant Comptroller, Director of Budget and Reports, holds hearings on budget submissions with responsible officials of bureaus and offices of the Navy, and the Headquarters, U. S. Marine Corps, with regard to all proposed appropriations. Program sponsors from the Office of the Chief of Naval Operations and Headquarters, U. S. Marine Corps, attend these hearings. Analysts from the Estimates and Analysis Division participate in the hearings.

The purpose of the hearings is not to reduce appropriation estimates but rather to insure that: (1) there has been a uniform interpretation of the Program Objectives set forth by the Chief of Naval Operations, and (2) the Chief of each bureau and office responsible for an appropriation can justify his request in complete detail. Detailed questions are asked by representatives of the Office of the Comptroller of the Navy, and others, as an additional means of keeping the Comptroller informed about appropriation estimates.

On completion of these detailed hearings, the Assistant Comptroller, aided by his budget analysts, prepares a "mark-up" of the appropriation requests. The Comptroller of the Navy reviews the "marked-up" budget and the recommendations of the Assistant Comptroller.

Money is not always the criterion during the "mark-up" process. Policy decisions affecting Navy programs have a significant influence on the final form of the "marked-up" budget. This "mark-up" of budget submissions is one of the key steps toward formulating the "final" Navy budget.

The Comptroller of the Navy during review of the "marked-up" budget must, among other things, consider the political implications of the budget.

The Comptroller returns the "marked-up" budget to the bureaus and offices of the Navy and to the Headquarters, U. S. Marine Corps, for consideration and evaluation pertaining to the Budget adjustment and reclama process. The Office of the Comptroller of the Navy, representatives of the Chief of Naval Operations, and chiefs of bureaus and offices work actively to effect adjustments. To illustrate the type of adjustment that is required after a "mark-up", assume that a policy decision has been made to deactivate several large ships. The bureaus and offices of the Navy must determine the impact of this reduction on fuel consumption, ship overhaul costs, military personnel requirements, and maintenance costs and make appropriate adjustments. These types of adjustments involve many appropriations.

Subsequent to the time that the bureaus, offices, and the Headquarters, U. S. Marine Corps, adjust differences, the Chief of Naval Operations' Advisory Board examines the "marked-up" budget to determine military implications and their estimate of the need for further adjustments. This board attempts to screen out budget problems that can be resolved below the Secretary's level.

Unresolved differences are presented to the Secretary of the Navy by the Comptroller of the Navy at a formal meeting of the Chief of Naval Operations' Advisory Board with the Secretary of the Navy presiding as chairman. The unresolved differences are considered individually with only the required personnel of any one bureau, office, or Headquarters, U. S. Marine Corps, being present at any one time. All "reclamas" are

resolved during this meeting and final budget revisions are made.

After formulation is completed, the budget is submitted to the Secretary of the Navy. The Navy budget is approved and submitted to the Secretary of Defense by the Secretary of the Navy. The letter submission briefly outlines objectives of the Navy for the Budget year and enumerates dollar amounts requested by Navy appropriations and Department of Defense categories.

Air Force

The Budget Advisory Board membership includes the Director of the Budget, as chairman; and Assistants to the Deputy Chiefs of Staff for (1) Personnel, (2) Operations, (3) Plans and Programs, (4) Material, and (5) Development. The Budget Advisory Board is essentially a "high-level" working group, since it includes the senior officers from the same staff Directorates as the Working Group. Having been advised of previous deliberations, they confine their review to budget estimates at the program level. Their review usually takes from three to four weeks and is conducted with advice from the Assistant Secretary of the Air Force (Financial Management). The Under Secretary of the Air Force and other assistant secretaries observe the proceedings, thus enabling the Air Staff to incorporate secretarial considerations at this stage of the budget review.

To assist the Budget Advisory Board in reviewing the budget estimates, a system of "Panels" has been set up, each of which presents budget programs and projects that are closely related but are sometimes in different appropriations. For example, the "Communications and Electronics Panel" has representatives from Construction, Operations, Plans, Material, Development, and the Budget Directorates. This panel

has cognizance over four appropriations involving nine programs and projects. The panel is responsible for coordinating all of the program elements, verifying the estimates, and integrating every related program element. The Chairman of this panel makes the presentation to the Budget Advisory Board and makes the presentation of requirements in the Communication-Electronics area to the office of the Secretary of Defense and Bureau of the Budget review authorities and to the Congressional Appropriations Committees. The recommendations of the Budget Advisory Board, including any minority opinions, when so requested by minority voters, are transmitted to the Air Force Council.

The Air Force Council (AFC) is the advisory body to the Air Force Chief of Staff. It consists of the Vice Chief of Staff, the five Deputy Chiefs of Staff, the Comptroller, and the Air Inspector General as regular members. The Assistant Chiefs of Staff for Installations, Reserve Forces, and Guided Missiles are invited to sit as members when their particular areas of responsibility are being considered. The Air Force Council considers the recommendations of the Budget Advisory Board without going into detail below the appropriation level. Action is completed after a relatively short period. This is possible because each of the members is thoroughly familiar with details of the Budget, having been closely interested in the work of his subordinates at the Working Group and Budget Advisory Board level.

Finally, the findings of the Air Force Council are submitted to the Chief of Staff, who directs any necessary final adjustments or approves action at Headquarters, U. S. Air Force. This is the highest level within the Air Force in which judgment of the military is exercised on the budget estimates. After this approval the estimates are submitted

to the Secretary of the Air Force for departmental approval. The Secretary, assisted in his evaluation primarily by the Assistant Secretary for Financial Management, takes the last official action on the Air Force Budget estimates and the Air Force budget is submitted to the Secretary of Defense.

Summary

Study of the budget formulation review process reveals that the Comptroller unit of each of the services plays a key role in consolidating the budget estimates. Coordinating action in each case reflects the particular position of the Comptroller in the departmental organization. In the Army and the Air Force, the Comptroller is subordinate to the Chief of Staff while in the Navy, the Comptroller, as an Assistant Secretary, is not subordinate to the Chief of Naval Operations.

As a result, it appears that closer coordination exists between program planners and budget directors in the Army and Air Force. In fact, in the Army one person may be both the planner and the budget estimator at certain stages in the budget formulation process. Resolution of differences under this system occurs at lower echelons and at earlier steps in the process than in the Navy. This is not to say that the final budget estimate is a better document. To the contrary, delaying ultimate decisions until the highest level, as is often the case in the Navy, may lead to more realistic budget estimates. There seems little doubt that civilian control is more effectively exerted in the Navy by virtue of the departmental structure.

Another basic difference is apparent in that the Navy and Air Force staffs rely on lower echelons to submit budget estimates, while the Army does not. A great deal of time and expense is involved in generating

these documents from the major commands within the Navy and Air Force. In view of the many drastic changes in estimates which are made at the staff level, one may well raise the question as to necessity for submissions of budget estimates. The Army contends that it is unnecessary, yet in reality we have seen that budgetary information, though not in estimate form, does flow from field sources to the Army Staff. Navy and Air Force personnel defend the practice, however, by adherence to the concept that for budget estimates to be realistic, they must be based on requirements which, in turn, are more accurately stated at the major command level.

One Air Force practice should be pointed out as particularly significant. Reference is made to the use of panels for budget briefing purposes. They assemble a group of specialists who are at the same time technically competent and expert at presenting detailed budget programs in their field. These panels conduct the budget presentations at all levels of review, within the Air Staff, for the Secretary of the Air Force, the Department of Defense, and to the Congress. Their sole function is budget presentation and justification, and it is reasonable to expect better Congressional reception results from their thorough preparation and practice.

CHAPTER V

SUMMARY AND EVALUATION

Although the Department of Defense presents a package budget to the Bureau of the Budget, the procedure used by each of the three services to prepare its estimate is distinctly different. The goal of achieving the most effective budget is common to all the services; the methods of achieving that goal are widely divergent. Once the three Secretaries obtain their guidance from the Secretary of Defense, they are completely free to pass on this guidance to their individual services as they see fit.

In October the budgets of the three services for the fiscal year beginning the following July 1, are presented to the Secretary of Defense by each of the Service Secretaries. Each document represents the considered judgments of many talented and devoted military and civilian personnel who have combined all the data that are relevant and useful. These data represent an annual terminus for the long, tedious process of translating military objectives into a dollar appropriation structure. The military operations for the coming year have, in a sense, been programmed and assigned a relative priority in terms of not all that can or perhaps should be done, but rather in terms of what, where, and how much can be done during that Budget Year. The top military line commander and the service Secretary have developed a plan that reflects their best judgment of what will be accomplished in their service and what this will cost in terms of a monetary yardstick. A process of assigning an annual

increment to many concurrent programs has passed another annual milestone.

The method of accomplishing this compromise between military requirements and monetary limitations at the headquarters level may seem a little confusing and certainly misleading when one looks at this process up three different budget formulation escalators; when the span of vision also includes a look down the funding implementation side of the same escalator, however, the true nature of these seemingly dissimilar organizations and processes and budget formulation principles become apparent. The line organization and the complexity of the military operations conducted by each of the service organizations have, by and large, shaped and will continue to shape the budget formulation processes for decision. These organizational differences have been emphasized in the preceding chapters by comparison of the major budgeting steps. The remaining paragraphs present a brief evaluation of each of the processes as a whole.

Army

The major responsibility for Army budget formulation is accomplished at the Washington headquarters of the Department of the Army. This feature, more than any other, distinguishes Army budget formulation procedures from those of the other Services. The Army justifies this on the basis that it has been impossible in recent years to provide the major commands and installations with firm guidance. And it is futile to give guidance and to ask for estimates when it is a certainty that the guidance will be changed and the estimates will have to be modified. For the past few years, however, the percentages of the total defense budget allocated to the Army, Navy, and Air Force have varied within narrow limits. The percentages have been so similar to those of the preceding year as to be

described as "sacrosanct". The exact amount of the defense budget often remains in doubt until late in the budget cycle, but the total is known within plus or minus 3% well in advance. It is difficult to see, therefore, why it is more difficult for the Army to provide guidance than for the other Services.

But it may be that the Army, alone among the Services, is calling a spade a spade, and having identified the instrument, the Army is using it properly to reduce work. Since the Army's reasoning makes budgeting easier for the major commands, the results are praiseworthy. The simplification, however, may be more theoretic than real. Ostensibly major commands and installations do not participate in budget formulation. But this statement is based on a fine distinction which the Army makes between budget formulation and budget execution while recognizing that "the two phases overlap and are directly dependent upon each other."[27] The Commanders Statement and Budget Summary is a simplified version of the voluminous budget estimates which were formerly required; it remains a detailed document and is submitted at the same time as were the estimates. Except for the timing, the Budget Execution Plan Directive issued by the Army is comparable to the Call for Estimates issued by the other Services. The Budget Execution Plans prepared and submitted by the major commands and installations in response to the Budget Execution Plan Directives detail how funds will be spent if the proposed funding is approved. These plans are submitted too late to contribute to budget formulation in the Budget Year. Obviously they can be used in the formulation of subsequent budgets. Terminology cannot change the fact that all of the Services--

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[27] O. C. Culbreth, "How the Army Budget Process Works," Armed Forces Management, February 1958, p. 16.

including the Army--are requesting and receiving estimates from the lower echelons. But the Army requests them later, at a time when firmer guidance can be provided. Thus the Army has shortened the budget cycle for the major commands and installations. Furthermore, the Army has achieved, at the very least, a budget formulation procedure that is more simple and efficient than former Army procedures. The Army's approach in this respect is perhaps more realistic and is certainly deserving of study by the other Services.

Navy

In the Army and the Air Force, program objectives are officially approved by the Chief-of-Staff of the respective Services. It can be concluded, therefore, that the only Service Secretary to approve program objectives directly is the Secretary of the Navy.

It appears that the Navy's budgetary procedures are more decentralized, detailed, and complex than those of sister Services. Evidence of this detail is the Navy's appropriation structure. The responsibility for preparing most Navy appropriation estimates has been assigned to the bureaus and offices of the Navy Department. These bureaus and offices frequently require activities under their management control to participate in the formulation of appropriation estimates. The result is that most naval activities play some role in formulating Navy budget estimates.

The complexity of the Navy's budgetary system evolves from the fact that the Navy's appropriation structure follows the decentralized organizational lines of the Navy Department--the bureau concept. However, in the final analysis, preliminary decisions affecting the Navy's budget are resolved through the coordinated effort of the Chief of Naval Operations program sponsors, bureau or office appropriation sponsors, and

the Comptroller of the Navy long before field estimates arrive at headquarters. Final decisions pertaining to the Navy's budget are made by the Secretary of the Navy with the assistance and counsel of the Assistant Secretary of the Navy (Financial Management), the Chief of Naval Operations, and the Commandant, U. S. Marine Corps.

Thus, in view of the program knowledge at the Navy Department level, and the management experience of the bureaus and offices of the Navy Department, the submission of budget estimates from other than major field activities may result in unwarranted effort, excessive detail, and unnecessary deliberations.

Air Force

The Air Force budget is compiled at the headquarters level from budget documents submitted by commanders of its major units. In addition to budget estimates, a continuous stream of information flows into the Air Staff from the field. Data relating to expenditures, obligations and requirements is combined at staff level with plan and program guidance to verify and, as is often the case, modify field budget submissions. This suggests that if the data are complete, the entire budget could be prepared at the Air Staff level. In preparing the fiscal 1959 budget, for example, the Air Staff was forced to resort to this procedure as a result of late budgetary guidance from the Secretary of Defense. The Air Force budget estimates were prepared at the headquarters level using such parts of the field submissions as remained valid.

Commenting on this experience, the Comptroller of the Air Force, Lt. Gen. M. J. Ascencio, expresses reluctance to adopt this procedure although he agrees that preparation of the budget at headquarters would shorten the budget cycle and reduce duplication of effort. In defense

of his view that field budgets should be submitted, he states that "when we charge a commander with performance of a certain mission, we must also give him a voice in the determination of the resources necessary to its accomplishment."[28]

While adherence to this management precept is commendable, it is questionable whether field requests should be in the form of budget estimates which require time-consuming and expensive preparation and review procedure. Conceived so far in advance of implementation, in an era of constantly changing program guidance, it is easy to see why field budget estimates are revised so extensively. Since the Air Staff revisions reflect more recent expenditure experience and program guidance, it appears that the Air Force might profitably adopt a budget formulation process which originated by accident.

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A discussion of military budget review and formulation would not be complete if we did not discuss the practical implementation of the process, particularly the last step, which has not been covered. Theoretically the final review by the Departmental Secretary should be brief and perfunctory, since the Secretary and his advisors have painstakingly monitored the entire formulation process. This is not the case, for this stage is often the most harried of all, characterized by frequent changes of a most significant nature. In general, these changes reflect last-minute guidance from the Office of the Secretary of Defense relative to

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28 M. J. Ascencio, Lt. Gen. USAF, "How the Air Force Develops Budget Estimates," Armed Forces Management, Feb. 1958, p. 10.

expenditure and new obligational authority ceilings. These are predicated on current White House interpretation of national and international economic and political facts. The end result is almost constant revision of departmental budget estimates until the document must be sent to the printer in mid-December for inclusion in the President's Budget.

Finally, the process of formulating such a monstrous and intricate budget is fraught with many intangibles which certainly must play an influential role. The effect of having a civilian comptroller in the Navy compared with military officers as comptrollers in the Army and Air Force is not a measurably quantity, but it does provide the basis for differing budgeting attitudes and concepts. The attitude of each of the Services toward public relations with Congress and the degree to which this intangible is exploited, together with the degree of success attained in selling programs somehow permeates Service thinking in budget preparation. Intangibles of this type have not been evaluated in this discussion for they have no place in gathering and analyzing factual information. In the overall process, however, they must be recognized for the part they play.

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GLOSSARY OF TERMS

Activity. A term used in budgeting to indicate a function.

Agency. Any executive department, commission, authority, administration, board, or other independent establishment in the executive branch of the government, including any corporation wholly or partly owned by the United States which is an instrumentality of the United States.

Appropriation. An authorization by an Act of Congress to incur obligations for specified purposes and to make payments therefore out of the Treasury.

Budget. (1) A statement, in financial terms of projected or expected operations of an accounting entity for a given period. When applicable, it should include a statement of the effect of such operations on financial conditions at the end of the period. (2) A formal estimate of future revenues, obligations to be incurred, and expenditures to be made during a definite period of time. (A budget for a succeeding period frequently is supported by comparative figures for current and preceding fiscal periods).

Budget Estimate. An amount estimated for any element included in a budget.

Budget Execution Plan. A detailed financial plan for a specified fiscal year which sets forth the funds required to implement the Operating Program of a command, agency, or installation.

Budget Justification. The supporting statements and data used to prove the requirement of the amount in a budget estimate.

Budget Year. The fiscal year immediately following the current fiscal year.

Comptroller. One who, subject to direction and control by higher authority, is responsible for budgeting, accounting, progress and statistical reporting (including analysis and interpretation), internal auditing, and administrative organization structure and managerial procedures relating thereto.

Current Year. The current fiscal year.

Fiscal Year. The period commencing 1 July and ending the following 30 June. It takes its yearly designation from the year in which it ends.

Headquarters Guidance. Any information, of whatever type or form, issued from the Department level to subordinate echelons for the purpose of advising and assisting in the budget formulation process.

Lead Time. The time allowed or required to initiate and develop something so that it will be available and ready for use at a given time.

Mark-up. Approval or revision of budget estimates (either increase or decrease by a higher authority.

Mission. A broad basic purpose or objective for an organization assigned by statute, executive order, or other authority.

Officer, Budget. An officer of a department, agency, or subdivision thereof charged with the direct responsibility for preparing, submitting and defending a budget, and for controlling the use of authorized appropriations and funds.

Officer, Fiscal. An officer of a department, agency, or subdivision thereof charged with the direct responsibility for maintaining the records necessary to reflect the use and status of appropriations and funds.

Prior Year. The fiscal year immediately preceding the current fiscal year.

Policy. A settled course adopted or prescribed to be followed by an individual or group of individuals. Policy should be based upon principle, but must reconcile therewith practical considerations having a bearing on timely, effective action.

Program Analysis. The quantitative and qualitative review and evaluation of the effectiveness, consistency, balance, or execution of programs, functions or activities.

Programming. The preparation of a plan or scheme or administrative action designed for the accomplishment of a definite objective which is specific as to time-phasing of the work to be done and the means allocated for its accomplishment. (2) For budget and accounting purposes a complete plan of work or effect to accomplish a stated objective.

Project. (1) A planned undertaking of something to be accomplished, produced or maintained for which a separate account or accounting is established. (2) Used in budgeting in the military establishment to indicate a function or mission.

Reclama. A statement or presentation by an agency in restating budget requirements in defense of a previous position, or in refuting charges implied or expressed by higher authority. Used to attempt to "reclaim" budgetary cuts, or restore reductions in funds authorized.

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We have attempted to show not only what is set forth in various written instructions, but what goes on behind the scenes. In an effort to give a true picture of how each of the three Services formulates its budget, we have supplemented our reading and research by interviews with many people who are in the business of budgeting. We have talked with both civilian and military personnel at the Department of Defense and service headquarters level in Washington, and at the major command and installation levels in the nearby area. It is fitting at this point to express our appreciation for the unqualified cooperation which we received from numerous government librarians and military offices and civilian officials in our quest for information.

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